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## SOME LIMITATIONS AND OBJECTIONS TO MUNICIPAL OWNERSHIP

BY CLARKE M. ROSECRANTZ,

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I understand that the purpose of this conference is to establish a bureau which will supply municipalities with information and statistics concerning the cost of the operation of public utilities.

While I have had no conferences with the managers of public utilities privately owned, I think I am safe in saying that they will welcome the organization of such a bureau, providing those in charge of it are non-partisan and report all information concerning the operation of municipally operated public utilities as well as those operated by private corporations, and will secure as accurate data concerning the cost of operation of municipally owned plants as it can secure as to the cost of operating privately owned plants or utilities. That they will have difficulty in securing such information as to municipally owned utilities, I think may be predicted with certainty. That has been the experience of everyone with whom I have had occasion to discuss the matter, and I think it is the experience of all public utility commissions.

It has been the experience of the Railroad Commission of Wisconsin as is evidenced by the following quotation from the sixth annual report of that commission, published under date of June 30, 1912 (page 148):

One problem that has been very hard to handle is the adjustment of municipal reports. It is the purpose of the uniform classification to make utilities of the same class, regardless of form of ownership, comparable with one another. In bringing the accounting procedure of municipal utilities into line with these uniform rules many more obstacles and difficulties have been met with than in the case of the private plants.

The commission has taken the attitude that a municipal plant should report earnings for services furnished by one department to another in the same way as though the utility stood apart from the general city administration. Thus, hydrant rentals should be reported as an earning to a municipal plant, even though as some municipal clerks have said, "it is only taking something from one pocket and putting it into another." The fact remains

that the utility has furnished the service and has earned a return for it, regardless of whether or not it actually has any more cash on hand to show for it. Unless such interdepartmental transactions are reported no fair comparisons can be made between privately and municipally owned plants.

The fault does not necessarily lie with the administration of the municipal utilities themselves, but should rather be attributed to the weaknesses in the entire accounting method which prevails in many of our cities. It is a difficult task to accomplish any permanent advancement or improvement in the accounting procedure of a municipal utility when the entire municipal system coupled up with that city's administration may be unscientific and inadequate. Just as soon as any attempt is made to regulate the utility end of it, the necessity of reforming the entire municipal accounting procedure becomes obvious. If it is the city's practice to sever all transactions with the general fund and to make little or no attempt to show operations of departments as separate activities, it is difficult to require that the procedure affecting the utility be revised without adjusting the other operations so that they are harmonious throughout.

The commission has pointed out to the municipal plant the importance of segregating their transactions as far as possible from general city business. It is to be hoped that coöperation with other state departments will be able to arouse the cities to realize the inadequacy of much of the present municipal accounting and to institute reforms in municipal accounts which will show separately the operations of each department of the city.

Such a bureau, operated as I have suggested, would perform a great public service and would, I am satisfied, go a long way towards solving the question of whether public utilities can be as efficiently and economically operated by the public as they can be under private management.

The attitude to be taken by the mayors of various American cities, with respect to the policy to be pursued by municipalities toward the public utilities, is of great moment to the public. I assume that those present at this conference approach the consideration of this great problem with an open mind, with a desire to seek and learn the truth; that they do not approach it armed with prejudice and a determination that no argument, no fact shall change their views. The question is really whether public utilities shall be operated by the municipalities in which they are located or shall be operated by private owners, subject to public control and regulation.

As I have not had the advantage of knowing what views Congressman Crosser will press to substantiate the reasonableness of his position and his belief that all public utilities should be oper-

ated by municipalities rather than by private owners, I am compelled, in anticipating the points he may make in support of his position, to rely on what I could gather from his questions at the hearing on the bill which he introduced in Congress last winter for the acquisition of street railways in the District of Columbia by the United States Government, at which hearing I had the honor and pleasure to appear.

The subject is so large that I feel seriously handicapped in discussing it, owing to the extremely limited time allotted to me; and in view of that limited time, I cannot bring to your attention any statistics, and cannot analyze for you the statistical reports showing the result of the operation of publicly owned railroads and utilities in Europe, in Canada and in the United States. I am obliged to refrain from discussing each of the advantages which it is claimed will result from municipal ownership and operation of public utilities. I can deal with but some of them and in but a most general way.

Of the usual reasons advanced for the operation of public utilities by municipalities is that utilities will thereby be removed from politics and that public utilities are now in politics and control municipal councils, and thereby secure to themselves special privileges of great value and thwart the public in its efforts to secure proper service at reasonable rates. Public utilities have been in politics. They did not go into politics from choice—they were obliged to go into politics to prevent their property from being wrested from them or plunged into bankruptcy by reason of the unfair and unjust demands made by the councils. The members of the councils making these demands claimed that they were representing the people when in fact they were representing themselves, seeking to remain in office, and to that end sought to impose great burdens and obligations upon the utilities so that they could point to such an achievement as a reason for their advancement to a higher official position or to being returned to the one they then occupied.

Numerous instances can be cited and proved by evidence competent in a court of law where municipal councils compelled public utilities to enter into politics in order to save their corporate life and property, or compelled them to pay large sums of money for a privilege which they should not have been compelled to seek, but which the municipality should not only have offered but should have insisted upon the utilities' accepting. By the imposition of

burdens upon public utilities, the members of councils claim they have done something for the public. That they have thereby worked harm to the public would seem clear—for every unnecessary burden placed upon a utility either lessens the utility's ability to afford better service, make extensions or reduce rates.

I can cite many instances which I know to be true—one or two may be sufficient—where councils have acted contrary to the best interests of the public.

A few years ago a certain railroad company desired to lay an additional track in a city. This track would not afford the railroad any additional revenue, and the right to lay it carried with it the obligation to expend some money—that is, add to its capital investment. It desired to lay this additional track so that it might more speedily and effectively serve the public. An ordinance was introduced, hearings were had on it before the railroad committee of the common council and, so that they all might understand the situation, a view was taken and counsel for the railroad company requested the members to come to his office so that he might explain the situation in detail upon large blue prints which had been prepared by the company's engineers, and give them a clearer conception of the location and purpose of the track and the result to be attained by its construction and operation. One of the members of that committee said to another "What do we want of blue prints? What we want to see is green prints!" The company refused to be black-mailed; the committee reported adversely to the ordinance and it was defeated.

In 1906 the Railroad Commission of Wisconsin, after a full investigation, handed down a decision in which it was stated that the Milwaukee Electric Railway and Light Company, in order to properly and efficiently serve the public, should be granted additional franchises. The company promptly made application for the franchises, but the common council for years persistently refused to grant them, all the time belaboring the company for not properly serving the public; and to this day, but few of the franchises mentioned in that decision have been granted.

In most cities the result of any election is dependent upon the position taken by a very small proportion of the total vote cast. Utilities employ large numbers of men. They are no different from other men. They naturally desire an increase in wages and a short-

ening of hours of service. The man or men running for public office in a city where the utilities are municipally owned, who gives the greatest assurance that either or both of these desires will be realized, will be elected. It will be to the interest of the employees to enter and remain in politics, and they will be able in almost all municipalities, to control the result of any election. Municipally owned utilities will bring them and their employees into politics instead of keeping them out.

It is also claimed that under municipal operation rates for service rendered will be much lower than where the utilities are operated by private corporations. This is stated broadly and positively by all the advocates of municipal ownership; but I have yet to find any instances where an examination of their accounts will show that the rates have been less without showing a deficit when proper charges incident to the cost of service were made.

What makes for success in the operation of any business enterprise, and a utility is a business enterprise? Does it not depend upon the skill, knowledge and experience of the men in charge, taken together with an opportunity for a continuity of policy? The man who operates any business enterprise cheaply and successfully is the man who has given it years of study and who brings to bear upon each new problem the result of his study and experience. In other countries, where the government is more stable, where it is bureaucratic instead of democratic in character, and where the men in charge of public utilities remain in office for long periods of time, the results do not show that the utilities are better managed—more economically managed—than similar utilities in the same countries which were under private control.

The rates charged by any municipally operated utility must be sufficient to pay for the cost of service. If they are not, then the non-users must make up the deficit and their proportion of that deficit will be included in their tax bills. If the public operation of utility companies is likely to be successful, we ought to be able to find without any difficulty that those which have been for many years, owned and operated by municipalities, have been economically and efficiently operated. The history of our city management shows that the contrary is the fact.

I appreciate that many cities claim that certain municipally operated public utilities have been operated satisfactorily to the

public and were operated much more economically than under private ownership and at a less cost to the users. Income accounts and balance sheets are presented to sustain that claim, but any proper examination of those to which I have had access with a proper allocation of items shows that, instead of being operated at a profit, they were operated at a loss.

It is quite customary for people advocating the adoption of any new policy to point to results in other countries of the policy sought to be adopted—usually so remote and under such conditions that it is difficult, if not impossible, to make a fair comparison. We are able to know the result of municipal operation of some public utilities by cities near at hand and cities where the administrators of public affairs have a longer tenure of office than they do in this democratic country.

The city of Edmonton, Alberta, Canada, having a population of about 90,000, believing that municipal ownership of public utilities was wise, has owned and operated its public utilities for a period of years. It did not purchase existing utilities but built new ones, and the *Official Gazette*, which is published by authority of the municipal council of that city, on April 2, 1914, pointed out that its railway system had a deficit from operation of over \$400,000; its telephone system, a deficit of over \$100,000; and its waterworks, a deficit of \$100,000. In the *Official Gazette* of Edmonton, under date of April 30, 1913, Mr. John Chalmers, commissioner of operation, stated:

Prior to 1913, no provision had been made for depreciation or replacements, and as much of the plant and properties will not be useful for the period covered by the lifetime of the bonds, particularly as some of the early issues were for forty years, and also that equipment must be superseded by more improved types, it was decided to create a fund to take care of this proper obligation.

In another part of his report he stated:

Our present financial condition is not exceptional to all other street railways west of Winnipeg. Systems in Saskatoon, Brandon, Regina, Lethbridge and Calgary, all equipped with modern apparatus, operating under the same rates of power charges, are showing deficits. Lethbridge is reported to have lost \$30,000 the last year; Brandon is losing \$100 a day.

Extensions were made into sparsely settled territory where they could not pay even a small fraction of the operating cost.

The annual report of the city engineers of Edmonton for 1913 says:

There has been a heavy loss in the operation of this department for the fourteen months amounting to \$129,636 and after paying the newly established reserve for depreciation, the loss has been considerably increased and the total deficit to date is over \$405,394.

A little over two years ago the city of Winnipeg established a municipal lighting system. It was able to secure its power from a hydro-electric plant, the cost of which was extremely low. After two years of operation, they have a large deficit although their accounts as filed originally with the public utility commission show that in the second year of operation they had made up a large portion of the deficit resulting from the first year's operation. An analysis of that account by the commissioner showed that they had neglected—and this is a common practice by all municipally operated plants—to make a proper charge for depreciation. The commissioner directed that the company should charge to depreciation the tiny sum of \$223,000. With this charge—which would be such a charge as a privately operated plant would be required to make—the operation showed a still greater deficit. In the endeavor to show that it was operated at a profit, no portion of the salary of the comptroller who has charge of the electric plant, was charged against the cost of operation. His salary was charged to the general expense. No charges were made for injuries and damages, and it appears that one item, amounting to \$5,000 for the death of an employee, was charged to capital account; and when it was suggested by the public utility commission that this charge might properly belong to operation, they offered to charge half to operation and half to capital account.

The municipal water plant in the city of Winnipeg is operated with electric energy secured from the municipal plant. Formerly it purchased it from a private corporation, and it now pays more for the same current than it formerly paid the private company. The municipal plant in Winnipeg is dependent entirely upon its hydro-electric plant and a transmission line which is subject to the action of the elements. A severe storm might at any time leave that city without electric energy for light or power or for pumping service for fire protection. It has been suggested that it should construct a steam plant for emergency service; but this plan, which



almost anyone would say was wise, has not been adopted, but instead, another high-tension transmission line at a cost of more than \$1,000,000 is to be constructed. Just how it is conceived that a storm might wreck one transmission line and leave the other, constructed in close proximity to it, so that the city of Winnipeg or those using the energy from the municipal plant would not be affected, is difficult to understand.

The city of Duluth owns and operates its own water plant and system. Great claims are made concerning economy of operation. In one of the Duluth papers it was recently stated that in order to maintain the low rate charged for water, a tax is imposed upon all property. This of course is in the nature of a subsidy. A private corporation if it received a subsidy from taxpayers might of course give lower rates than it could otherwise. So, too, it appears from statements made in the Duluth papers, published within the last few months, that the entire water supply of the city of Duluth is brought by one main which is in bad physical condition. Think of what would happen to a private corporation if it left a city—no matter how small—dependent for its water supply and fire protection upon the continued efficiency of one main! If that fact were known, the executive officers of such a company would be obliged to leave the city between two days.

San Francisco has recently constructed a municipal railway about fifteen miles in length, and that is pointed to with great pride by those in favor of municipal ownership. That company does not receive transfers from other lines, charges a straight five-cent fare and enjoys a position which gives to it the heaviest traffic of any line operated in that city. I think we may safely concede that if the city of New York owned the line up Broadway and accepted no transfers it might pay high wages and give utopian service and set aside a large sum by way of profits. But that would not be a fair criterion by which to judge a line on Avenue A or Avenue B or extending through a sparsely settled district.

In the city of Athens, Ohio, after eleven years of municipal operation, the people—at the election in 1914—by a most decisive vote decided to turn over the electric lighting plant to a private corporation for operation, as the municipality had been unable to operate it properly.

In September of this year the city of Hanover, Kansas, decided

to turn over the operation of its municipal lighting plant to a private corporation, the city's operation having been unsatisfactory and non-economical.

The people of the city of Chariton, Iowa, at a special election, voted to sell the municipal plant to a private corporation. That city had operated its municipal lighting plant for twenty-five years and found that it could not supply its citizens with electric energy as economically as it could secure it from a private corporation.

The city of Elbow Lake, Minnesota, has during the present year sold its municipal plant, as its experience for a period of over fourteen years has shown that the result of the operation had not been satisfactory and they could not supply the citizens with electric service as cheaply as it could be secured from a private corporation. These cities are small but it is in such cities that the voters can know what public operation costs—accounts cannot be juggled as they can in the large cities.

The city of Toronto, Canada, believing it desirable to own and operate its municipal electric plant entered upon that project, having been assured that it would cost but \$2,750,000. The total expenditure before the system when completed was \$7,500,000, and it was found that to protect itself against the interruptions inevitable to a high-tension line from a hydro-electric plant, a steam standby would have to be constructed at a cost of more than a million dollars.

The city of New York a few years ago, and I am sorry that I do not have the figures, being satisfied that it could operate the Staten Island ferry better than the private corporation, much more economically and much more efficiently, and turn a great sum of money into the coffers of the city and relieve the taxpayers, acquired and has since operated that ferry. The thousands the city has lost I will not pretend to say, but it is a matter of public record that the municipal ferry has been operated at a loss every year since the city took it over.

Many cities have been investigated by bureaus of public efficiency, and we do not find that in those matters which are properly within the province of municipal operation, there has been efficient and economical management.

Frederick A. Cleveland of the Bureau of Municipal Research, New York City, states in his book, published in 1909, as follows:

New York buys probably \$15,000,000 worth of supplies and materials per annum for current operation and maintenance. Yet it pays higher prices than are paid by persons who buy at retail for a small family. It buys in wholesale quantities and does not obtain wholesale rates. It pays cash but does not get cash discounts. It takes millions of goods into storehouses without holding anyone to account. It has little protection against deliveries short in weight and inferior in quality. It is safe to say that approximately five millions of every fifteen millions spent for supplies is worse than wasted.

The committee of city finance of the board of directors of the Cleveland Chamber of Commerce in its municipal accounting report, No. 3, dated April 8, 1913, states as follows (page 6):

There are no records showing the quantity of any article on hand in the various departments. This condition results in a duplication and unnecessary expenditures. In the Park Department it was found that in a number of instances oil and other material had been ordered in such quantities that they could not be consumed for years.

The Chicago board of public efficiency found practices of splitting into \$500 lots in order to avoid the necessity of open bidding. In one transaction alone this practice cost the city \$64,000.

The New York Bureau of Municipal Research in its investigation of certain departments in the city of Milwaukee in April, 1913, points out the absence of purchasing records, the lack of standards and specifications and the abuse of the purchase in open market in sums of less than \$200 to avoid the issuing of contracts as provided by the city charter.

A few years ago, a municipal survey was made of the operation of the departments in a large city in this country, and among other improvident purchases was that of a supply of pencils. The number purchased, I do not recall, but it was enough to last the city for a great many years. My impression is that the number purchased would have been sufficient to arm a large proportion of the Bulgarian army if those people could have been impressed with the belief that the pencil, like the pen, is mightier than the sword.

After Mr. Prendergast's election as comptroller of the city of New York, he was told that a certain bureau having twenty-three employees needed thirty more men to do the increased work assigned to it. Investigation was made and it was found that it was the duty of one man to post items from vouchers into a register or ledger. These entries were made during the months of November and

December at the rate of one for every eight minutes. Dividing the number of entries by the number of entries one man could easily make, it was found that fourteen men could do twice as much work as the twenty-three men had been doing.

The Chicago bureau of public efficiency in its pamphlet of July 9, 1914, pointed out that \$500,000 in interest was being lost annually to that city, and that there was no public record of the bank deposit's interest and earnings.

The Bureau of Municipal Research further found with respect to the police pension fund in New York, that it exists only as a legal fiction; that the deficiency in cash requirements to meet its obligations in 1912 amounted to \$1,135,188, or 54.1 per cent of the total amount needed for payment of the pensions during that year.

For years the city of New York has been financing asphalt pavements with fifty-year securities. It is obvious that this debt will remain in existence long after the property which it purchased has been worn out and replaced.

The Bureau of Municipal Research in the city of New York in its investigation conducted in the city of Pittsburgh found that \$240,000 of thirty-year bonds were issued for motor and fire department equipment. It is obvious that the life of motor and fire equipment is not thirty years. Long-time bonds for such purposes could be defended if the necessary replacement of the property purchased and worn out before the bonds became due was made a charge upon current expenses—but that is not done—new bonds are issued for the necessary replacements. This is more pernicious than trying to maintain rates so as to earn upon watered stock. Commissions can control the latter but not the former.

Rufus E. Miles, director of the Cincinnati bureau of efficiency, states that no attention was paid by city officials to efficiency, and points out one case where it was necessary to enjoin two contracts to save the city \$30,000. This will be found in *The Annals* of the American Academy of May, 1912.

The department of water supply, gas and electricity of the city of New York originally took (1913 report) 188 days to let a purchase contract. By careful planning this routine was reduced by 16 days, reducing the average time to 172 days.

The loss in dollars due to inefficiency in municipal governments may be approximately ascertained by reference to the Census Bulle-

tin of Financial Statistics of Cities with Populations of over 30,000. Those 199 cities paid out in 1913, \$984,000,000. Of this amount approximately \$564,000,000 were for ordinary operating expenses, \$110,000,000 interest on indebtedness and \$310,000,000 outlays for improvements. I believe that an examination of the per capita expenditures and the savings which have been reported as possible where investigations have been made, would show that in ordinary operating expenses these municipal governments are now wasting in excess of \$300,000 per day. This does not attempt to account for the losses in depreciation due to unwise expenditures and the losses in interest which could have been saved had there not been a rapid piling up of the city debt. The inclusion of these items might reasonably bring the losses sustained in excess of half a million dollars per day.

In connection with this estimate, it may be interesting to recall the statement made before the Interstate Commerce Commission by one of the gentlemen who appeared before this conference, Mr. Louis Brandeis, that the railroads in the United States could save a million dollars a day if they were scientifically managed. It was difficult to determine just how Mr. Brandeis reached this mouth-filling figure, but an examination of the book entitled *Efficiency* written by Mr. Harrington Emerson in 1909, may possibly throw some light upon his method. On page 16 of that book, Mr. Emerson stated:

"The total of the preventable material and labor waste and losses in American railroad operation and maintenance approximates \$300,000,000 per year."

Mr. Emerson's statement was really an estimate—he gave a few instances where economies could be practiced and then made the statement heretofore quoted.

As there are about 300 working days in a year a simple arithmetical calculation would enable us to reach Mr. Brandeis' figure of \$1,000,000, a day. By this method employed by Mr. Emerson and adopted, apparently, by Mr. Brandeis, the estimates I have given above would be very largely increased.

It is claimed that municipalities can raise moneys for public utilities at a less rate than can private corporations; that this cannot be done where the plant alone is pledged would seem clear. It can only be done, if at all, where the city has a wide margin between

its existing indebtedness and its bond limit, and it will guarantee the bonds so that it will be obliged to make up any deficit occasioned by losses in operation by resorting to taxation, or where the securities issued by the city are not subject to taxation.

The city of Toronto had an illuminating experience with respect to the ability of a municipality to dispose of its securities for the municipal electric plant. In the report of the commission in charge of its municipal plant for the year 1914, the following appears:

In the last annual report your commissioners expressed the opinion that with a continuation of satisfactory surpluses, a reduction of rates might possibly be effected during the year 1914. During the interval, however, three conditions have arisen not then contemplated which combine to defer for the time being any possible reduction of rates. In the first place, the interruptions of service on provincial hydro-electric lines which have since occurred, as already stated, established the necessity of providing a steam reserve plant, the heavy additional charges of which will constitute an additional burden on the system not then contemplated or allowed for. In the second place, it was not anticipated at that time that the enterprise would be loaded with the heavy additional burden since laid upon it by reason of the low prices at which the corporation of the city of Toronto found it necessary to sell the debentures authorized by the first two by-laws, the discounts and expenses of these two debentures amounting, as set forth in the second paragraph hereof, to the sum of \$893,100.56 or 18.4 of the face value of the issues, while the total flotation cost of the three issues amounts to \$951,756.56 or 16.85 per cent of the face value thereof; that is a little over 20 per cent of the net proceeds; that is to say that each \$100 of cash invested in the plant has cost, by reason of these heavy expenses, a little over \$120.

Commissioner Erickson of the Railroad Commission of Wisconsin in a paper recently read before the Michigan Electrical Association stated that when cities issued special improvement bonds which were secured only by the property affected or the income therefrom and were not made a charge against the city, that cities were required to pay fully as much in interest as was paid by public utilities.

It is also claimed that under municipal ownership the large salaries paid to corporate executive officers would be eliminated. This is probably true; but I do not think that there is anything in connection with the operation of any utility by a municipality which would attract a \$25,000 man so that he would accept a \$5,000 salary. In various countries, one of which I may cite is France, while salaries were reduced, the number of officers had been increased.

Sixteen officers were required to do the executive work in one branch of a state operated railroad which had formerly been done by three and their salaries aggregated more than had been paid the three. The financial advantage of employing sixteen men at lower salaries where the aggregate salaries were largely in excess of the amount of the three, does not readily appear to me.

It is further claimed that under private ownership the public is required to pay rates which will furnish an income upon watered stock. This is a favorite claim, but, with regulation, it amounts to nothing. It is of no consequence to the public in fixing the rates which the utility will be permitted to earn, whether it has stock outstanding aggregating \$1,000 or \$100,000,000. The rates are not fixed upon the amount of stock or bonds outstanding but are fixed solely that but a fair return will be realized upon the money actually used for the public service.

There is an apparent belief that the successful operation of a public utility does not depend upon a continuity of management. Just what that is based upon, I have never been able to learn. Under our government the tenure of official management is not secured for more than a brief period. A policy may be barely under way when it may be superseded by that advocated by a new management resulting from a new election.

Can any of you gentlemen hope to remain at the head of your municipality for more than two terms, and is it not probable, with our ever-shifting political views, that you may not even enjoy a second term? Does the public care how well or how ill you conduct your office? Of course if you conduct it ill you are furnishing ammunition for the "outs" and you will be all the more certain of retirement at the end of a single term. Must you not have the coöperation of your board of directors—the members of your council—in order to be able to carry out any policy? Can you be certain of having it?

What makes for efficiency in any service? Is it not a desire, with a reasonable hope of having that desire fulfilled, that one will secure advancement—a better position—will secure the job of the man higher up? What can you do to reward any man in the public service whose efforts are such that he is entitled to advancement; can you do anything for him? Does the general public know whether he does well or ill? He cannot be expected

to do his work with as much earnestness as he would under a private corporation where the success of his efforts could be rewarded, where he could be advanced by the executives of his company, and if they did not do so, where he would be in line for a better position with greater rewards with some other corporation. A man in the city's service is interested largely in retaining his connection with the political elements which got him the place so that he may retain it or possibly be advanced. He knows that his advancement cannot be as a reward of merit.

Would those of you who favor municipal ownership of public utilities invest, or direct the executors and trustees of your estate to invest, your savings in the securities of a municipally owned and operated utility when the payment of the interest and the return of the principal would depend solely upon the successful operation of the utility.

One of the speakers of last evening, the Honorable Mr. Maltbie, a member of the New York Public Utility Commission, said:

Gentlemen, is it possible that we cannot be permitted to spend our money as we see fit; is it possible that the members of any municipality will permit such a condition in which a public utility commission, or anybody else, should say to us how we shall spend our money?

I say no! Spend your money any way you want to, but don't operate a public utility and make up your deficit by taxation without saying so. Then we will have no quarrel with you, gentlemen, but don't say you operate your utilities at a great profit and at lower rates than the public utilities privately managed in that or similar cities can or will do, unless you put in all the items. Don't make up the deficit from taxation or from some other fund.

Before I forget it, I wish to refer to a statement which was made by one of the speakers this morning concerning the wonderful result of municipal operation of street railroads in Glasgow and other foreign cities. He said you do not find any over-crowding. Why? Because they will not allow the people to get on the cars when there are no seats. Will you stand it in your city? Will you help the railways to prevent over-crowding beyond comfort? You have probably heard that we have had a complaint of over-crowding on the street cars in the city of Milwaukee. We have it in every city. One of the railroad commissioners of the state of Wisconsin, told me he stood on the corner of one of the busy intersecting streets to observe



conditions for himself, so that he would not have to rely upon the reports of the company's inspectors or would not have to rely upon the reports of his own inspectors, and there were two cars, within ten feet of each other, destined for the same place, the first one crowded, the second one with room in it. A man brushed by him to get on the crowded car and the commissioner said, "Wait, take that other car; it is going to the same place," and the man said to him, "Get out of the way; I want this car." That is what the American man wants; he wants "this car" and he is going to have it.

Do you know why we have congestion in these American cities? It is due to the fact of the mistaken policy, I honestly believe, of the construction of high office buildings. Can you have, in any city, office buildings within an area of less than a mile which contain 5,000, 6,000, 7,000 or 10,000 people, and have all of them present themselves for transportation within a short space of time without over-crowding the cars, and can your municipally operated railroads provide cars enough for them to take care of them without crowding? You cannot put cars enough upon the rails. If you put them as close together as beads on a string and run them around in a circle, you cannot prevent over-crowding.

Mayor Mitchel (of New York City) spoke last night of the trouble they have with the traffic situation in the city of New York. Any system of transportation which is devised in New York City, or in any other city similarly situated, is inadequate before it is completed, due to the fact that the population increases and the congestion increases more rapidly than the transportation facilities can be provided. Look at the subway. They were going to take care of 400,000 people per day. That was going to solve their transportation problem. It seemed to be the millenium, as to transportation, but the subway was not completed before it was inadequate. They had to lengthen the platforms and lengthen the trains. They spent hundreds of thousands of dollars in order to take care of the people who presented themselves. That is the reason for over-crowding, and will always be so, whether municipally operated or privately operated.

Now, gentlemen, I do not think any of you will claim that the public utilities, privately owned, inspired the report of Mr. Mahone, recently published, he being the known representative of the labor unions, among the street railway employees. He has recently re-

turned from Europe, and I will read a portion of his report. It may be familiar to you, but perhaps if I read it, you may remember a little of it, and it refers to the operation of the street railway in Glasgow, which the gentleman referred to this morning:

Glasgow and suburbs have more than a million population, with 194 miles of street car tracks. Cities with one-fourth the population in this country have much more trackage. The fares on the Glasgow system vary from one cent to fourteen cents, according to distance. The average ride for one cent is 1.15 miles, and so on up to the fourteen-cent fare, when the average ride is 14.48 miles. Fares are collected on the zone system. When a passenger rides from one zone into another he pays an additional fare. Of a total of 336,654,624 cash fares realized by the Glasgow Corporation last year, 211,462,484, or 62.81 per cent, represented one-cent fares. (Mahone Report.)

Does that make for distribution? Does that make for healthful, happy, moral living? It makes for congestion, gentlemen. The working man must live near his business if the fare which he must pay in order to ride from his home to his place of work is fixed as in Glasgow.

This is claimed to be proof that the public is enjoying cheap fares. This is not correct, for the Glasgow system, like all other European cities, in which the systems are municipal and private, does not issue transfers, and a passenger may ride on several lines to reach his destination and have to pay an additional fare on each. On every line he is a cash passenger, and helps to swell the total class of fare he happens to pay, so that the so-called cheap fare of Glasgow, as of Europe generally, is not so cheap when the small distance it covers is considered, and certainly not cheap when compared with the buying power of the workers as reflected in the impossible wage they receive. (Mahone Report.)

If the members of this conference really desire to save the public money, I think their attention should first be directed toward securing an efficient and economical management of the affairs which properly belong to the municipality. There is plenty of opportunity in that field, and when it can be shown that those affairs are efficiently and economically conducted it will be time enough to consider taking on the burden of operating public utilities.

Everything which is claimed by the most earnest advocate of municipal ownership can be gained by private ownership under regulation. The government's duty is to govern and control and

not to serve. Nothing should be undertaken by the government which can properly be done by private persons. To do so puts the government in a position which it should not occupy, and removes from public endeavor some of the proper opportunities for gain and advancement.

It is said that regulation is not efficient and that public utility owners advocate regulation because they fear municipal ownership. Those who say that regulation is unsatisfactory base it entirely, I believe, upon the fact that it is their view that regulation means a reduction in rates in every instance, and the placing of as many burdens upon the utilities as mortal man can conceive. And when an application for reduction in rates or an increase in service is made, and the imposition of any additional burden is refused by a commission—then it is claimed that the commission's control is a failure.

As to the other claim that public utilities welcome regulation only because they fear municipal ownership, I have to say that my acquaintance with the managers of public utilities leads me to believe that their willingness to submit any differences they may have with the public to a commission for decision is not due to the existence of a fear of municipal ownership, but that it is due to the fact that they are willing to have their differences decided by any impartial body removed from local influence.

Some gentlemen, among whom I may mention Mr. J. Alden Smith, Dean of the Graduate School of the University of Wisconsin, Mr. Delos F. Wilcox of New York and Professor Pond in *A Treatise on the Law of Public Utilities* state that regulation is a failure and advocate municipal ownership. A reading of their articles shows that their belief that regulation is a failure is due to the fact that municipalities do not secure all that they demand, and one of them advocates that regulation should be by the municipality. Those of us who have had experience with regulation by municipality know what that means. It means that every common council will, if it is within its power so to do, reduce rates charged by every utility within the corporate limits, and without any proper investigation being made. Ordinances increasing the service on any and all street railway lines in the city will be passed in the shortest space of time. Ordinances reducing telephone, electric and gas rates would be passed with the same facility and speed. Legislatures are prone

to that very practice. You are all familiar with the fact that notwithstanding that New York had a commission which had charge of railroad rates, the legislature passed an act reducing the passenger rates. This was so manifestly unfair that Governor Hughes vetoed the measure; but, unfortunately we cannot always have a governor or other chief executive with that courage.

In the state of Wisconsin, the railroad commission in response to a petition, investigated the question of the steam railroad passenger rates, and after careful investigation decided that two and one-half cents per mile was as low as they could be reasonably reduced; but the legislature, without making the slightest investigation and at the instance of a man who desired to make political capital for himself and his party, introduced a bill and passed it in record-breaking time, reducing the passenger rate to two cents. The people had the rate but the companies could not afford the service that had theretofore been given by them, and the public have been obliged to put up with less frequent service.

Among the reasons against municipal ownership may be stated the following:

1. Public officials in charge will not have had the necessary experience and training.

2. Extensions of service will be made for political reasons, often into territory where the business would not afford a return upon even a fair proportion of the cost of the extension.

3. Corruption will not be decreased but will be increased.

4. Employees will not hold their places on merit but by favor and will have no incentive to improve.

5. Public service will be less even. The policy and plan of operation and extension of the utility will be changed with change of administration.

6. Politics will enter into every branch of the service to the detriment of the service.

7. Taxes will have to be increased to make up the deficit caused by operation and to pay for costly mistakes.

8. The individual employee will not have a reason for giving the best there is in him. He can gain nothing by increased effort or showing ingenuity.

9. The public will gain nothing in service or rates and will lose as to both.

10. If a municipality once assumes such an undertaking it must assume others. The history of other countries shows that it cannot stop.

To have public utilities operated by municipalities is to destroy one of the greatest incentives which moves men to their highest endeavors and is the true source of all progress. Having undertaken the operation of public utilities experience of other countries shows that they cannot stop; that they must engage in other lines of endeavor. The government should confine itself to its true purposes, namely to control and regulate. It should not serve. The hope and desire for gain—for material advantage—is what makes for all material progress; but for it we would still be ploughing with the stick, tracing our history upon a fragment of stone with the strong bone of some animal we had slain. America would not have been discovered and the people of the earth would be still stumbling along in the darkness of profound ignorance with no pride in the past and no hope for the future.